DEPARTMENT OF HEALTH SERVICES

Safe **D**rinking **W**ater **S**tate **R**evolving **F**und

APPLICATION GUIDELINES

2006

NOTICE TO ALL APPLICANTS

The Application Deadline for Projects Invited in 2006 is **January 12, 2007.**

Only COMPLETED APPLICATIONS submitted by January 12, 2007, to

both the Department of Health Services, Drinking Water Program, **District Office**

and the

Safe Drinking Water State Revolving Fund **Program Office** in Sacramento

will be considered for funding

SDWSRF APPLICATION INSTRUCTIONS AND GUIDANCE

A completed application should be submitted **as soon as possible**, but in all cases, must be submitted no later than **January 12, 2007**. If a completed application is not received by January 12, 2007, the project will be **bypassed for this funding cycle**. The project will remain on the Project Priority List and may receive an invitation to apply in a future year. Only **complete applications submitted by the deadline** will be considered for funding. Incomplete applications will not be processed.

These instructions and guidelines are intended to assist applicants in filling out the construction loan application CDHS 8585. Application for planning funding should use CDHS 8586 is to be used for planning loans. The guidelines should be used in conjunction with a copy of the SDWSRF regulations for a better understanding of the SDWSRF program requirements. The regulations and this guidance should be reviewed carefully before attempting to complete the application in order to avoid confusion and unnecessary work. As federal funds are being used to finance this loan program, much of the information that needs to be included in the application is necessary to meet federal requirements

The instructions and guidance may not fit all situations or there may still be some uncertainty as to what is required for a specific project application. In such cases, the applicant is encouraged to contact the District Office for the Department's drinking water program. The District Office that can answer most questions and is available to assist applicants, if needed, in filling out the application.

The Department provides two different application forms depending upon the type of financial assistance requested. These forms are (1) planning loan application CDHS 8586, and (2) a design and construction loan application CDHS 8585. You may request copies of any of these forms from the Department. The forms are also available at the following website: www.dhs.ca.gov/ps/ddwem/SRF/srfindex.htm. You may duplicate any of the forms for your convenience. Applicants are reminded that all applications are for loans. A determination as to whether or not a disadvantaged community qualifies for possible grant assistance will not be made until the application is processed.

Applicants should be aware that there are several parts to the application package that **must** be submitted. These include the following:

1. Application form CDHS 8585 and attachments listed at the back of the application.
2. "Technical, Managerial, and Financial (TMF) Assessment Form."
3. Environmental Information

Federal law states that funding can only be provided to water systems that demonstrate that they have adequate technical, managerial, and financial (TMF) capability to operate a public water system satisfactorily. The TMF Assessment Form covers the TMF information requirements. Should there be any missing TMF information, or any TMF improvements needed, the District Office may negotiate a schedule for submission of such information with the water system. If you are a community water system, you may have filled out a TMF Assessment Form and have had a TMF evaluation performed by the District Office. If so, simply attach a copy of the completed assessment form. For those systems that have not had an assessment conducted by the District Office, complete the TMF Assessment Form as completely as possible, and submit it with your funding application. In some cases, the same information is requested in the application form and the TMF Assessment Form. Applicants only need to provide the required information once and do not need to duplicate it. For example, if the required information on one of the forms is included in the engineering report, simply refer to the appropriate section of the report (or some other location such as the TMF Assessment Form) where this information is available. If you have any difficulty in completing the TMF Assessment Form, please contact the District Office.

Submit one copy of the application package to each of the following:

Safe Drinking Water State Revolving Fund Program

Division of Drinking Water and Environmental Management

Department of Health Services

1616 Capitol Avenues, MS 7416

Post Office Box 997413

Sacramento, California 95899-7413

Department of Health Services

Drinking Water Program, District Office (for your water system)

Applicants are advised that only applications determined by the District Office to be **complete** will be processed. Partial applications **will not** be considered as "received" and **will not** be processed. The CDHS will notify an applicant by letter when CDHS determines an application is "complete," at which time review will begin. If a minor amount of information required to be submitted as formal part of the application is missing, the system will be notified within approximately 30 days of receipt of the application of the information that needs to be submitted.

An applicant will have 30 days to provide the missing information. Failure to provide the information by the deadline will result in the bypass of the project for this year. The project will remain on the Project Priority List and may receive an invitation to apply in a future year. If, for some reason, funds from the current year allocation are fully committed at the time your application is approved, your application will be held until the next year's funds are available and your project will be among those receiving first priority in the next funding cycle.

Applicants are encouraged to contact the CDHS District Office for your area if you have any questions or need any assistance. In many cases, it may be helpful to have an initial meeting with District Office staff to discuss the proposed project, timing, project eligibility, environmental review procedures, federal cross-cutters, or any other aspect of your project. To arrange such a meeting, please contact the District Office serving your project area.

NOTICE:

Senate Bill 278 (Machado, Chapter 892, Statutes of 2004) requires that entities awarding public works projects financed with state bond funds must adopt and enforce a **labor compliance program** in compliance with California Labor Code 1771.8. As the Safe Drinking Water State Revolving Fund Program will obtain some of its funding from state bonds, we anticipate having to impose the labor compliance within the next two years. The purpose of this notice is to make applicants aware of this upcoming requirement.

Information about labor compliance programs is available on the Department of Industrial Relations website:

http://www.dir.ca.gov/lcp.asp

If an applicant is considering beginning construction prior to having an executed SDWSRF funding agreement, the applicant must contact the CDHS District Office to find out the requirements, which must be met before approval will be given to proceed to construction.

Other Department of Health Services funding sources:

Proposition 50 – http://www.dhs.ca.gov/ps/ddwem/Prop50/

These instructions follow the same order as the questions on the Application Form [DHS 8585 (4/01)]. Clarification concerning completion of the application can be obtained by contacting the CDHS District Office for your area.

PART A. GENERAL INFORMATION

Pre-Application Number. This is the number of the project that appears on the project priority list. This number is necessary in order for the Department to determine which priority list project the application addresses. Some water systems have multiple projects on the priority list, making it difficult to relate the application to a specific project without this number.

Priority List Category. This is the category ranking of the problem to be solved by the project that appears on the project priority list. The category is critical because if SDWSRF funds are limited in a particular funding year, higher priority projects that file complete applications, may receive funding offers earlier than lower priority projects.

1. Name of the applicant water system. Provide the legal name of the public water system that is acting as the applicant for the loan. The name used should be the same as what appears on the domestic water supply permit. If it is different, please explain in an attached note. **(If the applicant is a privately owned for-profit business such as a mobile home park, and is doing business under any name other than the owners true name, the name of the applicant must be the name on the fictitious business name statement. A copy of the certificate of fictitious business name statement from the county, in which the statement was filed, must be provided.)** If the project involves more than one existing public water system, the water system whose name appears on this line must be the system that has been designated as the applicant and recipient of the loan on behalf of the water systems involved in the project. This agency will be assumed the party responsible for repayment of the loan and would sign the SRF funding agreement. For projects involving consolidation of several water systems, the District Office should be contacted and asked to determine whether each system involved in the project needs to submit a separate application.

2. Water system ID Number. Provide the public water system number assigned to the water system by the Department to uniquely identify a water system. The number should be on the domestic water supply permit issued to your water system. Contact the District Office if you have difficulty locating the ID number.

3. Street Address. Provide the street address where the water system is located, not the address of an owner or company headquarters that may be located in a different city.

4. County. Identify the county in which the water system's distribution system is located.

5. Mailing Address. Provide the address where information and other mail regarding the loan should be sent.

6. Authorized Representative. Identify the person who has the authority to represent the water system and sign documents pertaining to the loan funding application. If the water system is owned by a public agency or has a governing board, the application **must include** a copy of a resolution adopted by the governing body designating its authorized representative and authorizing the submission of a loan application. (We recommend designating the title of the person authorized to sign as opposed to using a specific name, e.g. President, Board of Directors.) The loan application must be signed by the authorized representative. Should the water system change its authorized representative prior to final execution of the loan agreement, the Department must be notified in writing with a copy of a new resolution.

7. Principal Contact Person. Provide the name, title, telephone number, and e-mail address of the person that the Department should contact if we have any questions or need further information regarding the application or the project.

8. Project Engineer. Provide the name and address of the engineer or engineering firm that is or will be planning and designing the project, if known. The Department anticipates that a qualified engineer will prepare the engineering report that must be developed and submitted with this application. This information will be helpful in reviewing the project, discussing the design parameters to be used in the project and can speed up the review and approval of the application.

9. Estimated Amount of Loan Funds Requested. Enter only the amount of eligible project costs for which an SDWSRF loan is being requested. (Please refer to the SDWSRF program regulations regarding costs that are eligible for funding). This amount may differ from the preliminary estimate stated on the pre-application. The total project cost may be greater than the amount requested if other funds will also be used or if the project contains ineligible items. The requested loan amount should be based on the preliminary engineering design and estimated construction costs as set forth in the engineering report. The loan estimate should also include any cost of planning the project and preparing the application, for which the applicant may be seeking reimbursement. **These costs can be reimbursed only if the application is approved and a funding agreement executed.**

The Department will determine the final eligible funding amount after completing a detailed review of the application. This amount will be reflected in the preliminary funding offer [Notice of Acceptance of Application (NOAA)] that will be sent to applicants qualifying for funding, following application processing. Staff from the District Office will contact you to discuss any significant changes that may arise from their review of your application. The estimated amount of funding set forth in the NOAA is expected to be further refined after approval of plans and specifications and issuance of a funding agreement.

PART B. MANAGERIAL INFORMATION

1. Classification of Water System. Please check the box that represents your type of system. The three boxes represent the three types of systems that are eligible for funding. If you are unsure of the classification of your system, refer to the system domestic water supply permit. The system classification should be noted on the permit.

2. Ownership of the Water System. Check the box that corresponds to the ownership of your water system. Non-community water systems should be reminded that they must qualify as a nonprofit entity in order to be eligible. **To verify this status, nonprofit owners of non-community water systems must include the appropriate IRS non-profit ID number. Privately owned systems must include a copy of the fictitious name statement. Corporations must provide a copy of their Articles of Incorporation.**

3. Water System Regulated by the California Public Utility Commission (CPUC). Please check the box as to whether your water system is regulated by the CPUC. Water systems regulated by the CPUC must obtain CPUC approval for a loan; therefore, these systems must notify the CPUC in writing, that your system will be seeking CPUC approval once a NOAA is issued. A copy of the notice to the CPUC must be provided to the District Office. (The California Department of Health Services will send the CPUC a copy of your SDWSRF application.) In addition, a list of all matters relating to your water system that are currently pending before the CPUC must be provided with your application for SDWSRF funding.

4. Key Officers. Provide the name, title, and duties of key officers of the water system. If there are more than three individuals, submit an organization chart showing the names, titles, and the reporting relationship of all key persons involved with the operation of the water system. The organization chart does not need to describe all personnel employed by the system, only those persons that have primary responsibilities for making decisions that affect the operation of the system.

5. Authority to Enter into a Loan Agreement. Verify that the applicant has the legal authority to enter into an SDWSRF funding agreement. Applicants need to write in next to the "yes" box, the maximum loan term (e.g. 10 years) that can be entered into. (After reviewing the water system's application, it may be necessary for the Department to request further documentation regarding an entity's ability to enter into a loan agreement.

6. Litigation. Identify whether there is any litigation pending that could affect the water system's financial situation to the extent that the system's loan repayment capability could be hindered. Minor litigation that does not have this effect does not have to be described. However, if the litigation is over water rights, this needs to be described since it could affect the water system's ability to provide an adequate water supply.

7. Contract Operations. Identify if any portion of the water system operations is contracted to a private entity or another agency. This is a good way for some systems to overcome TMF deficiencies or provide operation that is more efficient. Where this is the case, the applicant must name the contractual party and provide a copy of the agreement.

8. Leases. If any major portion of the water system, such as water sources, land upon which all or a portion of the system is located, treatment facilities, or pipelines are utilized pursuant to a lease, describe the terms of the lease or attach a copy to the application. The Department must be assured that the water system has full control over all key facilities of the water system. Note that leased equipment, such as vehicles, and leased space for laboratories or offices do not need to be described. If a lease is critical to the location or operation of proposed project facilities (such as land upon which a water source or a treatment plant is located), the lease must cover the loan

repayment period (typically 20 years). NOTE: An applicant that does not own or lease the land upon which all or a portion of the system is located, **must** have a recorded easement on the land upon which the facilities are located.

9. Water rights. Describe the nature of your water rights that apply to your source. State law requires that the Department **establish that applicants hold any necessary water rights prior to issuance of a NOAA**. If your source water is derived from a surface source pursuant to a riparian right or if you extract groundwater from a basin that is not adjudicated, provide a statement to that effect. If you purchase water from another water source, indicate that fact and attach a copy of the executed contract. (The term of the contract must be as long as the SRF loan term.) If you divert surface water pursuant to a water right granted by the State Water Resources Control Board, attach a copy of that permit. If you have applied for a water right permit but one has not yet been issued, provide a copy of your application for the water right. If you extract water from an adjudicated groundwater basin, attach a copy of your right to extract such water from the basin water master.

PART C. TECHNICAL INFORMATION

1. Problem Description. Describe the drinking water problem to be addressed by the project. If the problem is described in the engineering report, identify the appropriate section of the engineering report. Only that problem or problems that the project will address and resolve should be described. Do not describe all of the problems in the system. In most cases, the applicant submitted necessary documentation to demonstrate the problem as part of the pre-application submitted for the project priority list. If this is still adequate, no further documentation is needed. If, however, the situation has changed, or the information is outdated, additional documentation should be submitted.

   The project for which this application is being submitted was ranked based on a specific problem. This problem must be the primary problem that the proposed project would address. Do not include water system improvements that are not directly related to the problem being solved. **To be considered eligible for funding, major elements or components of the proposed project must be directly related to the primary problem.** With respect to water mains for example, if a new well is being drilled to solve a source water problem, the piping to connect the well to the distribution system is eligible but piping to replace old or leaking distribution lines is not eligible.

   The Department recognizes that some systems have multiple problems and may have more than one project on the project priority list. If a water system has received an invitation from the Department to submit more than one application (multiple projects within the fundable portion of the list), the applicant may combine those projects into one application. In these situations, each problem must be described. Applicants cannot request funding for lower priority problems as part of the project application without the Department's specific approval. For example, if the problem is a nitrate contaminated well, funding for the project cannot include improvements to the distribution system since those problems are unrelated to the primary problem being addressed. The applicant should be aware that if unrelated problems or project elements are included, these elements may be excluded from funding consideration and would have to be paid for by the applicant.

The Department recognizes water conservation measures, energy conservation and reliability features, and water system security upgrades as valuable enhancements to projects. Therefore, when appropriate in the context of the funded project, components such as water meters, auxiliary generators, upgraded fencing, or other measures to improve water conservation, energy efficiency and reliability, and security components may be eligible for loan funds. **The components must be included as part of the project application to be considered for funding. Applicants should consult with the District Office for questions concerning ancillary component eligibility.**

In a few situations, some separate projects that have not received an invitation to apply could be included if: (1) the cost is minor compared to the primary project (< 25% of the total project costs); (2) the secondary problem being addressed is also high or medium priority (priority classes A-L); and (3) solving the secondary problem would cost significantly more if funded as a separate project at a later time. If you have any doubts or questions regarding combining multiple problems, you should contact the District Office and discuss them.

2. Project Description. Describe the project that will be constructed to resolve that problem. In most cases, this will already be done in the engineering report. If so, simply refer to that report in this section. If the engineering report does not describe the project, provide a brief description in this space or attach a separate description.

3. Service Area. Identify and delineate the service area of the water system. This information is used for purposes of project affordability and other factors. In most cases, this can be done most readily by providing a map showing the boundaries of the service area. For municipal systems, the service area is likely to be the city or town limits, in which case a map showing those limits is sufficient. Some large special districts however, may include more than one public water system within their legal district boundary. The service area in this case, should be the area served by the specific permitted water system rather than the overall district boundary. For community water systems that do not have a specified legal boundary, the service area should be described as that area served by the existing distribution system.

   Since non-community water systems do not usually have distribution systems, it may be more difficult to determine the service area. If the majority of the "users" of the non-community system are derived from a specific area, then this area can be used as the service area for the system. For example, if more than half of the students of a rural school that is a non-community system come from a specific community, that community can be used as the service area. For other non-community systems, the county in which the system is located will generally be used as the service area with respect to determining median household incomes etc.

   If the boundaries of the water system extend beyond the area served by the existing distribution system, the location of the current distribution system within those overall boundaries should be shown on the service area map.

4. Population Served. Estimate the population served on an average daily basis by the water system. For community water systems, this would be the permanent population of the community. Seasonal community systems should use the average population served by the system during the

peak period in which the system is in operation. Non-community water systems should use the average daily population served during the periods that the system is in operation. The estimated population can be derived from census data, use records, billing information, or by converting service connections to population using a conversion factor of 2.8 persons per connection, whichever most closely approximates the actual number of persons served.

5. Service Connections. Provide the total number of active service connections that are currently and directly served by the water system. This includes all domestic or residential, industrial, commercial or other connections. Wholesalers, or entities that deliver water to another water system, should contact the District Office as to the appropriate number of service connections to be used since this may vary depending upon the type of project being proposed. Non-community water systems do not need to fill out this section (simply indicate "not applicable").

6. Engineering Report. Attach an engineering report prepared by a qualified professional engineer with experience in water system design. Use of this type of expertise will speed up the processing of the application and will reduce the depth of the Department's technical review. The report **must address** the specific elements described below. This section is the central part of the application and contains most of the technical information needed to process the application. The engineering report should include:

   a) Evaluation of Alternatives. Both State and federal law require that funds may be provided only to fund the most cost-effective solution to the problem. Therefore, it is essential that all feasible alternatives be evaluated. For example, if the problem is a contaminated well, alternatives may include drilling a new well, installing treatment on the existing well, blending the water with other uncontaminated sources, purchasing water from another system, or abandoning the source and physically consolidating with an adjacent water system. Alternatives that are obviously not feasible for economic or physical reasons do not have to be evaluated. An alternative should not be discarded for political reasons (e.g. simply because the adjacent system is not interested in consolidating).

   In considering alternatives, only alternatives that involve significantly different concepts (such as those described in the above example) need to be evaluated. It is not necessary to evaluate different forms or variations of the same basic concept. For example, in evaluating alternatives for a surface water supply, it is not necessary to compare conventional filtration versus direct filtration or use of filtration membranes. It is only necessary to compare filtration (in general) against other concepts such as use of groundwater.

   In addition to evaluating and discussing the "feasibility" of each alternative, the report should estimate and compare the costs and relative effectiveness (including reliability) of the alternatives. "Costs" need only be addressed in a general sense. The cost-comparison of alternatives may be based on "typical" construction costs, use of existing examples, or application of best engineering judgment; specific detailed costs of the alternative are not required.

   State law requires that the basic environmental impacts of each alternative be determined and compared. This information may be presented in the Initial Study that many systems will need to prepare as part of the environmental review (CEQA - California Environmental Quality Act)

process. For those projects that have not gone through the CEQA process at the time of application submittal, an initial comparison of environmental impacts will be necessary. This comparison does not have to be detailed but merely compare the general impacts of the alternatives. (NOTE: The NEPA-like environmental process must be followed for those projects whose estimated SRF cost exceeds $500,000 or serves greater than 1,000 service connections.)

The primary decision as to which alternative to fund will be based on "cost-effectiveness." Preference is given to the project alternative that achieves an acceptable result at the least cost. In comparing the relative cost, both initial capital costs and operation and maintenance (O&M) costs (over the useful life of the facilities) should be considered.

b) Consolidation. **Consolidation with another water system must be included and evaluated as one of the alternatives**. The Department recognizes that consolidation is generally not a feasible option for larger systems. Therefore, systems serving more than 10,000 persons do not need to explore this option in any detail but can simply include a statement that consolidation is not feasible. Smaller systems, however, must evaluate this possibility. If consolidation is deemed not to be feasible, the reasons for that determination must be described.

"Consolidation" with respect to the engineering report means physically combining two or more systems into one system with the elimination of the other merged system(s) as separate water systems. Consolidation needs to be evaluated only with other systems that are in reasonably close proximity and which could be inter-connected by pipelines where the physical terrain makes this feasible. After evaluation, consolidation may be deemed a non-viable alternative due to costs, physical factors, or limitations of the adjacent water system. For example, the adjacent water system may not have sufficient water to serve the combined systems, may not have adequate TMF capability, or may simply refuse to consolidate. If consolidation appears to be a cost-effective solution but the other water system refuses to agree to the consolidation, the applicant needs to include a letter from that water system confirming their refusal.

Consolidation may also play a role in the correction of TMF deficiencies of an applicant. In some cases, consolidation may be the only means of correcting existing TMF deficiencies. Under these circumstances, consolidation could be funded as the selected alternative even though it may not be the most cost-effective solution.

c) Project Description. The selected project alternative should be fully described in the engineering report. Each component or unit process, as well as related equipment, should be described as to necessity (with respect to solving the problem), function, size, and relationship to other project components.

The project description should also identify any elements of the project that will be included but are ineligible for funding using the eligibility criteria in the regulations. The construction project can include ineligible components, however, the applicant will need to identify a funding source other than SDWSRF funds to pay for the ineligible portion. If the application combines more than one project on the priority list (as discussed in Section 1), the elements or components of each of the combined projects should be identified separately.

d) Anticipated Benefits. The report should describe how the project would solve the primary problem and the results that would be expected.

e) Conceptual Project Design. The engineering report must include a conceptual or preliminary project design. For treatment facilities, this would include identification and description of the unit processes to be used and a project layout of the treatment process showing the location of the facilities and a flow diagram. The anticipated size or design capacity of each unit or major piece of equipment should be indicated. For new wells, the size of the well casing and the pump, as well as the expected yield of the well, should be indicated. Any assumptions, design criteria, flow rates, etc. used to size the facilities should be shown. Any reasonable methods may be used to estimate flows, water demand, or unit capacities including existing records, comparison with similar water systems, and use of AWWA or Ten-State standards.

A map or drawing must be included in the report that shows the location of key facilities of the existing system (e.g. sources, treatment units, reservoirs, storage tanks, and primary distribution mains) and the proposed location of new facilities. If the purchase of land will be included in the application for funding, the size, location, and purpose of each parcel must be shown or described. Unless shown elsewhere, the map also needs to clearly delineate the service area of the water system.

f) Analysis of Projected Growth. The SDWSRF is prohibited from funding projects, which exceed a "reasonable amount of growth." The applicant is referred to Health and Safety Code Section 116760.20 (j) for the definition, and important exceptions or exclusions. In essence, growth is limited to 10 percent above the amount or capacity needed to serve existing maximum day demand. In addition, federal law makes ineligible any project whose purpose is "primarily to serve future growth." This is interpreted by the Department to mean that excess capacity will not be funded by the SDWSRF.

Analysis of Projected Growth (cont.) SDWSRF **allows for fire flow consideration in facility design, but restricts the additional capacity for fire flow to no greater than the maximum day demand. In combination, this means that** excess capacity, [greater than (2.00P+0.10P), where P is maximum day demand] will not be funded by the SDWSRF for the design of source, treatment and storage facilities. Excess capacity can be included in a proposed project but the applicant must identify another means of funding the excess capacity. The project is "primarily to serve future growth" when the project is more than double the capacity needed to serve existing water demand. The applicant may decide to pay for additional excess capacity (no greater than 0.90P) from another source, **however, if the proposed capacity of a major project component (including fire flow) is more than 3.00P, the entire project would be declared ineligible, and excluded from SDWSRF funding.** (See below.)

SDWSRF Project Capacity Limitations (Source, Treatment, Storage)		
Terminology	Designation	Explanation and comments
Existing maximum day demand	P	Capacity needed to serve existing water demand
Fundable capacity for fire flow	FF (where FF $\leq$ P)	For small water systems, contact District Office for fire flow requirement
Max. fundable fire flow	MFF = P	
SRF Fundable growth	0.10P	10% Max. allowed for growth
Total SRF fundable	2.10P = P + MFF + 0.10P	Total SRF fundable = existing max day demand + max. fundable fire flow + SRF fundable growth
Non-SRF fundable growth	0.90P	
Total component capacity allowed with max. fire flow	3.00P = 2.10P + 0.90P	Total component capacity allowed with max. fire flow = Total SRF fundable + non-SRF fundable
Component excluded from SRF funding	Capacity of component >3.00P with FF Capacity of component >2.00P without FF	
Ineligible Component(s)	IC	
Eligible Component(s)	EC	
Project excluded from SRF funding	Sum of IC > 50% of sum of EC	Consider only construction cost in this evaluation, not pre-construction costs. (Examples of pre-construction costs: planning, engineering, environmental, etc)

SDWSRF Project Capacity Limitations (Pipelines)		
Terminology	Designation	Explanation and comments
Existing maximum day demand	P	Capacity needed to serve existing water demand
Required fire flow	ff	Requirement must be in writing based on local fire code or local fire authority
SRF Fundable growth	0.10P	
Total SRF fundable	1.10P + ff = P + 0.10P +ff	Total SRF fundable = Existing maximum day demand + SRF fundable growth + required fire flow
Non-SRF fundable growth	0.90P	
Maximum allowable pipeline capacity design	2.00P + ff = 1.10P + 0.90P + ff	Maximum allowable pipeline capacity design = total SRF fundable + Non-SRF fundable growth
Pipeline component excluded from SRF funding	(with fire flow) Capacity of component > 2.00P + ff (without fire flow) Capacity of component > 2.00P	

Pipelines where **fire flow is not being considered**, the pipeline design may be based on peak hour demand. If **fire flow is included**, you must not use peak hour demand as design criteria for pipeline sizing

Analysis of Projected Growth (cont.) In the application, the applicant needs to conduct several analyses and address certain items in order to establish the eligible design capacity of the project. These steps are explained below. As indicated earlier, all assumptions, criteria, and calculations used must be shown and described.

Step 1: Determine the existing maximum day demand. This should reflect the demand as of the date of submission of the application. Where possible, this maximum day demand should be based on records of usage experienced by the water system during recent periods of highest daily use (e.g. during the past 5 years). Where such records are not available, the applicant must calculate approximate maximum day demand based on annual use, number and type of consumers etc. using reasonable criteria. In determining existing water demand, be sure to include water delivered to another public water system under an existing contract. The allowable amount of growth in water demand would be the existing amount determined by the above plus 10 percent.

Step 2: Determine the projected growth anticipated occurring within the service area within the next ten years, the resultant projected water demand, and the amount of growth or water demand to be included in the project. (Even though the proposed project may not include all of the capacity needed to serve the 10-year projected demand, the applicant should have a plan for meeting that demand.)

Step 3: Determine the design capacity or size of key facilities that are proposed to be constructed to meet the water demand determined in Step 1 at maximum day demand. This should include any water sources, primary treatment unit processes, pumping and storage facilities, and transmission mains that will be part of the project. The project engineer may use any of several methods or criteria to determine the design capacities or size of these project components including Waterworks Standards, previous design criteria such as filter flow rates, as approved by the Department; AWWA criteria; or Ten-States Standards. The assumptions and criteria used to size the units must be clearly shown. If a specific item of equipment (such as a water main) is not available in the size determined to be eligible, the next larger available size may be used; these upgraded components remain subject to the 3P size limitation for a project with fire flow and 2P size limitation for project with no fire flow.

While funding to accommodate future growth is limited, applicants can include provisions within the eligible project that will facilitate the construction of additional treatment units in the future. For example, piping and valve arrangements and pipe "stub-outs" to accommodate future treatment units can be included in the project funding.

g) Cost Breakdown of Proposed Project. In most cases, the initial cost estimate included in the pre-application form was a rough estimate. It is expected that the full application will refine those estimates. Applicants are not limited to the amount stated in the pre-application. In developing the cost estimates for the project, the applicant must break the total cost estimate down into various project elements. As a minimum, the engineering report should show the anticipated costs of the following items if they will be included in the loan funding requested. If the applicant intends to pay for any of the items from another source, such as reserve accounts, this should be shown on the summary table on the application form (Part D. Item 5).

- Planning, preliminary engineering, and application preparation
- Design and engineering costs
- Construction costs broken down by:
  - Major project components
  - Land acquisition (Note: There are limitations to the purchase of land.)
  - Eligible versus ineligible items
  - Excess ineligible growth capacity

- Construction management and contingencies
- Legal and administrative costs
- Other (describe)

h) If the project contains ineligible construction items, the percentage of indirect costs (planning, administrative, design etc.) that apply to the eligible construction portion should be estimated. This can be based on a straight pro-ration, which will be the method used by the Department unless some other means is indicated.

i) Useful life. The useful life of the key system components (the elements that makes up the largest construction budget items) of the project should be estimated.

j) Scheduling. The engineering report should also include a proposed schedule for project completion. The schedule should allow time needed for preparation and submission of plans and specifications, completion of financing and preparation of construction bids (after approval of plans and specifications), and completion of construction. Be sure to include the time needed to complete the CEQA or NEPA* -like environmental review process. Timeframes should generally be expressed as months needed, rather than specific dates, since the timing of any SDWSRF, funding offer is unknown. The District Office will use these estimates as a basis for preparation of an overall project schedule.

Should a preliminary funding offer [Notice of Application Acceptance – NOAA] be made, applicants must proceed towards completion of NOAA requirements such that a formal funding agreement can be entered into within **one year** of execution of a NOAA. Failure to do so may result in the NOAA being withdrawn. In addition, project construction must be completed within **three years** from the time the formal funding agreement is executed.

7. Environmental Documentation. An environmental review that complies with CEQA is required as part of the application process for all projects seeking SDWSRF funding. **(An applicant cannot wait for funding to be offered to start the environmental process. An applicant is expected to be making good faith effort towards completion of the environmental process.)** In addition, applicants whose water systems serve more than 1,000 service connections or whose project cost is greater than $500,000 must ensure the review also complies with NEPA. The USEPA has established specific "NEPA-like" requirements in its Operating Agreement with the Department.

   Compliance with CEQA can be a time-consuming process. Therefore, in order to avoid delay in the funding application process, the CEQA (and where applicable, the NEPA-like) process can be completed following submission of an application and receipt of a NOAA. CEQA documentation, such as a Negative Declaration, an Environmental Impact Report (EIR), and a Notice of Determination, may be submitted at the time of application if they are completed. NEPA-like documentation, such as cultural resources survey reports, should be submitted as soon

* NEPA: National Environmental Quality Act

as possible if federal cross-cutting laws will apply to the project. If any documentation still needs to be submitted, the application must include a completed "Schedule of Dates for Compliance with CEQA and NEPA-like Requirements." Please note that all CEQA documentation must be circulated through the State Clearinghouse. A funding agreement **will not** be issued until the environmental review process is complete.

The SRF program **cannot fund a project if** construction begins before the **environmental review process is completed** for the entire project, including any phases.

In cases where the applicant is a public agency, and has determined that the project is exempt from the documentation requirements of CEQA, a completed "Safe Drinking Water State Revolving Fund Environmental Information Form & Worksheet for CEQA Exemptions" must be submitted with the application.

In cases where applicants are not public agencies (e.g., private companies and mutual water systems), the Department may assume the lead agency role under CEQA for the preparation of documentation. If this is the case, the water system must submit a completed "Safe Drinking Water State Revolving Fund Environmental Information Form" with the application. If, based on this form, the Department determines that the project is not exempt from CEQA, the applicant water system must submit to the Department the equivalent of an Initial Study prepared pursuant to CEQA guidelines, before the project can be constructed or a loan agreement issued. If the Department determines that an EIR should be prepared, the applicant must submit to the Department an EIR prepared pursuant to CEQA guidelines, in addition to the Initial Study. To assist in preparing an Initial Study or EIR that will be adequate for the Department's use, the water system may wish to retain the services of a consultant.

Included with the application package material is Environmental Guidance prepared by the Department to assist you in understanding and preparing the appropriate environmental documentation. All of the environmental documents will be reviewed and approved by the Department's **SDWSRF Environmental Review Unit**. Staff of this unit is available to assist you and respond to environmental compliance questions related to the project. They may be contacted at **(916) 449-5641**.

TMF Information. The **TMF** (technical, managerial and financial capability) information **must be** submitted with this SDWSRF funding application. At the time of application, a TMF review will be performed by the Department's District Office. Should the assessment identify any TMF deficiencies that require correction, the cost of completing those corrections can be included as an eligible project cost.

The Department can provide technical assistance to small water systems (those serving less than 1,000) as well as any disadvantaged community in developing the TMF documents. Small water system applicants that cannot develop this information themselves may request technical assistance from the Department by contacting their CDHS district office or their Local Primacy Agency (LPA) early in the application preparation process. Upon receiving such a request,

engineers from the District Office or a third party contractor hired by the Department will visit the water system and provide "hands-on" technical assistance in developing the necessary documents at no cost to the applicant.

PART D. FINANCIAL INFORMATION

The following items are very important in order to help the Department determine the affordability of the proposed project. Affordability is measured in terms of water service charges imposed on residential customers. In particular, Items 1 through 3 should be as accurate as possible. In estimating projected costs, use current dollars and do not apply an inflation factor. These items do not have to be filled out by non-community water systems (since their ability to repay a loan will not be based on user water rates). Non-community systems should mark these items as not applicable.

1. Average current monthly residential water bill. Determine the average current monthly residential water bill. (Do **not** include industrial and commercial users.) This can be done by an evaluation of past charges or some other method. If the water system uses a "tiered" water rate, the charge should reflect what a typical residential user pays. The rate should reflect direct water charges plus any other fees or charges that support the water service such as parcel fees, standby charges, water taxes, and surcharges. In addition to providing the average monthly water rate, the application should describe the method that was used to calculate the average residential rate.

   One of the key factors used in determining the ability to repay the loan is *consumer affordability*. In addition, other factors such as overall credit-worthiness, degree of indebtedness etc. are considered. Affordability is based on a comparison of the average residential water bill of the system to a standard "consumer target rate". (See California Code of Regulations, Section 63000.90.) For disadvantaged communities, the affordability analysis will also be used to determine the amount of grant funding, if any, that may be awarded.

2. Impact of the SDWSRF loan on the average monthly residential water bill. Calculate what the projected average monthly residential water bill will be should the requested SDWSRF loan funding be provided. Estimate the portion of the eligible project cost that will be passed on to the consumers (this should be consistent with the engineering report) and the effect this cost will have on water rates. In calculating this projected cost, all related costs of the eligible project (do not include any ineligible project costs), including operation and maintenance costs, should be included. No SDWSRF, grant funding should be assumed; however, grant funds from other agencies can be included in the calculation. Disadvantaged communities may assume a zero interest rate on their loan but other agencies should use a higher rate. **During calendar year 2006, the projected interest rate for conventional SDWSRF loan offers is 2.2923 percent**. SDWSRF loans are generally for 20 years. If you are not certain whether your community qualifies as "disadvantaged," use the higher rate. Do not include anticipated increases in the water bill that are not related to the eligible portion of the SDWSRF project (this will be included in the next item).

   The methodology and calculations for determining the cost impact of the loan should be shown. The Department will assume that project costs will affect residential and nonresidential water

charges in a proportional manner to current costs. If this is not the case, please describe the reason for shifting the cost burden.

3. Average projected monthly residential water bill. Provide the total overall projected water charges that will be passed on to residential water users. Include any ineligible project costs as well as non-project-related water system costs that will be imposed on the residential users during the next five years. This is calculated in a similar fashion to the previous items. As an example, the current average residential water rate may be $20 per month, the impact of the proposed project loan may raise this to $28 per month, and the overall projected monthly rate for the next five years may be $35 per month.

4. Water rate structure. Attach the water rate structure (for all consumers, including commercial and industrial users) covering the past three years.

5. Estimated project cost. Summarize the project cost broken down by category and source of funding. Much of this information may be derived from the engineering report but it may not be in this format, therefore, it should be re-summarized here. If the categories used in the engineering report are more detailed than the categories listed in Column 1, the categories in the engineering report may be used. Indicate the source of funding for any ineligible items that will be included in the project and that will be paid for by the applicant. The total amount at the bottom should be equal to the total cost of the project. Item F. Contingencies, allows the applicant to budget for unforeseen construction costs. SDWSRF regulations require that the applicant must pay for construction change orders that occur during construction that result in a cost increase. In addition, once a funding agreement is executed, an entity has only one opportunity to request a funding increase, and that increase must be based upon bids. The entity is responsible for any cost increase after that.

6. Source of other funds. Provide a breakdown of Item 5, column number four (other loans and grants). (Applies only if project funding will not be entirely from SDWSRF funds) For example, if additional funds will be obtained from a federal agency such as the Rural Community Assistance Corporation or the Department of Housing and Urban Development, or from a private lender, the full name of each of the lenders or grantors should be listed under Fund Source. The second column should designate whether the funds are in the form of a loan, a grant, or in the case of applicant funds, whether these are from cash reserves or some type of internal loan.

   In the fourth column, indicate with a yes or no whether these funds have been applied for at the time this application was submitted. If the funds have been applied for and have actually been secured indicate that in column 5. If an applicant's ability to repay the SDWSRF loan, or if commencement of the project is contingent upon receiving these other funds, the Department will impose a condition that these other funds be secured before a loan agreement will be executed. The Department encourages the use of multiple funding sources and works cooperatively with other funding agencies to coordinate and expedite funding.

7. Source of funds for loan repayment. Describe the funding source that you plan to use for loan repayment. The federal SDWSRF requirements make it clear that an applicant must have a "dedicated" source of funds for loan repayment. Prior to actual loan, execution the applicant must

submit a resolution or ordinance adopted by the governing board establishing the dedicated funding source.

8. Loan Security. Identify what you are proposing to use as security for a loan, for example, assessments, stock, or property. If you are using property, provide an estimate of the value and how it was determined, and whether the property is already pledged as security for another loan.

9. Financial Statements. Provide required three years of financial statements. The financial statements must include 2005, as well as 2006 (if available), and two years prior. (Audited financial statements are preferred.)

10. Existing indebtedness. Provide information on existing outstanding loans of the water system.

11. Cash reserves. Describe any cash reserves that your water system has in place. This would include any cash-flow reserve, emergency reserve, equipment replacement fund, contingency reserve etc. This information is needed to help establish the financial viability of your water system. Bear in mind that if a loan agreement is executed, the system will be required to maintain a loan repayment reserve equal to two loan repayments. This will be spelled out in the funding agreement.

The Department of Water Resources (DWR) conducts the financial analysis of applications with respect to loan repayment capability, and prepares a financial report for submission to CDHS. The report will contain the recommended loan amount; grant eligibility, interest rates, and loan repayment terms. You may be contacted directly by DWR with respect to any financial items.

CERTIFICATION: Provide the signature, name, title, and date for the person submitting the application. This certifies the authority to apply for funding, and the accuracy of the information provided.

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